

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name City of Ann Arbor Downtown Dev. Authority	County Washtenaw
Fiscal Year End 6/30/06	Opinion Date 9/19/06	Date Audit Report Submitted to State 12/1/06	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

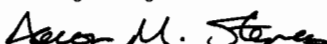
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	N/A	
Certified Public Accountant (Firm Name) Abraham & Gaffney, P.C.		Telephone Number (517) 351-6836	
Street Address 3511 Coolidge Road, Suite 100		City East Lansing	State MI
Zip 48823			
Authorizing CPA Signature 	Printed Name Aaron M. Stevens, CPA	License Number 1101024055	

**City of Ann Arbor
Downtown Development Authority**

Washtenaw County, Michigan

FINANCIAL STATEMENTS

June 30, 2006

City of Ann Arbor
Downtown Development Authority
Washtenaw County, Michigan

June 30, 2006

BOARD OF DIRECTORS AND MANAGEMENT

Leah Gunn	Chair
Sandi Smith	Vice-Chair
Robert Aldrich	Treasurer
Rene Greff	Secretary
Fred Beal	Member
Gary Boren	Member
Russ Collins	Member
Ronald Dankert	Member
Dave DeVarti	Member
Robert Gillett	Member
Roger Hewitt	Member
John Heiftje	Member
Susan Pollay	Executive Director
Joe Morehouse	Deputy Director

City of Ann Arbor

Downtown Development Authority

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Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA



ABRAHAM & GAFFNEY, P.C.

Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
City of Ann Arbor Downtown
Development Authority
Ann Arbor, Michigan

We have audited the component unit financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Ann Arbor Downtown Development Authority as of and for the year ended June 30, 2006, which collectively comprise the Authority's basic financial statements as listed in the Table of Contents. These component unit financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the component unit financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Ann Arbor Downtown Development Authority as of June 30, 2006, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information as identified in the Table of Contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Ann Arbor Downtown Development Authority's basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

September 19, 2006

City of Ann Arbor
Downtown Development Authority
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2006

This section for the Downtown Development Authority's (the Authority) financial report presents a discussion and analysis of the Authority's financial performance for the fiscal year ended June 30, 2006. This discussion has been prepared by management along with financial statements and related footnote disclosures and should be read in conjunction with, and is qualified in its entirety by, the financial statements and footnotes. This discussion and analysis is designed to focus on current activities, resulting change and currently known facts.

Using this Annual Report

This annual report consists of a series of financial statements that focus on the financial condition of the unit of government and the results of its operations as a whole.

One of the most important questions asked about governmental finances is whether the unit of government as a whole is better off or worse off as a result of the year's activities. The key to understanding this question is the Statement of Net Assets and Statement of Activities that present financial information in a form similar to the private sector.

The Statement of Net Assets includes the Authority's assets, liabilities and net assets. It is prepared under the accrual basis of accounting, whereby revenues and assets are recognized when levied or the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged. The Authority's net assets are one indicator of the Authority's financial health. Over time, increases or decreases in net assets indicate the improvement or erosion of the Authority's financial health.

Condensed Statement of Net Assets
June 30, 2006 and 2005

	Fiscal Year <u>2006</u>	Fiscal Year <u>2005</u>	% <u>Change</u>
Current Assets	\$ 18,718,153	\$ 20,048,277	(6.63%)
Current Liabilities	2,219,560	2,163,727	2.58%
Long-term Liabilities	<u>4,192,890</u>	<u>5,313,503</u>	(21.10%)
Total Liabilities	<u>6,412,450</u>	<u>7,477,230</u>	(14.24%)
Net Assets:			
Unrestricted	<u>\$ 12,305,703</u>	<u>\$ 12,571,047</u>	2.11%

Current Assets

The decrease in current assets is due to the excess of revenues under expenses for the year ended June 30, 2006. The components of this category are:

Cash

The Authority maintains a checking account for DDA payments and two bank accounts for depositing parking revenues until they are swept into investments.

Investments at fair value

The Authority keeps its excess funds in investment accounts managed by a bank trust department that invests according to State of Michigan guidelines.

City of Ann Arbor

Downtown Development Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2006

Accounts Receivable

These are funds due for loan payments.

Current Liabilities

The slight increase (2.91%) in current assets was due to normal operations of the Authority.

Accounts Payable

This amount is made up of amounts due for goods and services received, but not paid for by the end of the fiscal year.

Accrued Liabilities

This amount represents the accrued payroll liability of the Authority.

Accrued Interest Payable

This amount represents the amount of interest owed but not paid at year end on the outstanding bonds taken out for DDA and parking projects.

Long-term liabilities, due within one year

This represents the amount due for the bonds taken out for streetscape and parking projects due in the next year.

Non-Current Liabilities

The decrease in this category is due to the payment of principle for City obligations the DDA is contractually responsible for during the operating year. This category is composed of:

Long-term liabilities, due in more than one year

This represents the amount due for the bonds taken out for streetscape and parking projects due in more than 12 months.

Net Assets

Net assets represent the difference between the Authority's assets and liabilities.

Unrestricted Net Assets

Represents those funds available to the Authority for use in approved expenses.

City of Ann Arbor
Downtown Development Authority
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2006

Condensed Statement of Activities
Year Ended June 30, 2006

Revenues	
Property Taxes	\$ 3,365,468
Charges for service	11,680,426
Investment income	377,608
Intergovernmental	876,223
Miscellaneous revenue	<u>36,346</u>
Total Revenues	16,336,071
Expenses	
Downtown development	4,285,936
Parking	12,035,052
Housing	70,405
Interest on long-term debt	<u>210,022</u>
Total Expenses	<u>16,601,415</u>
Change in net assets	(265,344)
Restated net assets, beginning of year	<u>12,571,047</u>
Net assets, end of year	<u>\$ 12,305,703</u>

We did not use a comparison between the last fiscal years for Statement of Activities due to the fact that there were extensive changes in the format of the financial statements. A comparison will be provided next year.

Revenues

Property Taxes

The Authority's property tax revenues are generated through the use of tax increment financing in which the Authority captures ad valorem property taxes. Property tax increment revenues related to the State Education Tax, the Washtenaw Intermediate School District and the Ann Arbor Public Schools levies are captured in an amount sufficient to support only the annual debt service for Authority obligation outstanding when Proposal A took effect on January 1, 1995. Property tax increment revenues generated by new construction in the Authority's district related to the City of Ann Arbor, Washtenaw County, Washtenaw Community College and the Ann Arbor District Library are used to support the Authority's capital projects and debt service related to certain of those projects. Property tax revenues for the year ended June 30, 2006 included property taxes levied July 1, 2005 and December 1, 2005.

Charges for Services

This is the revenue generated by the 5,000 space off-street parking system and the 1,500 parking meters managed by the Authority.

Investment earnings

This is interest revenue earned when Authority funds are invested in State approved investments through the Bank of Ann Arbor.

Intergovernmental

This represents the amount refunded to the Authority from a bond fund for project expenses paid by Authority in excess of its down payment amount.

City of Ann Arbor

Downtown Development Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2006

Expenses

Community and Economic Development

This is the cost of general administration of the Authority as well as grants to other organizations for the betterment of the downtown area. An example would be the funding of downtown worker bus passes.

Parking

This is the cost of operating the City's parking system.

Housing

This is the cost of one of the Authority's main functions, which is to assist various agencies in providing fair and equitable housing within the downtown area.

Budgetary Highlights

The Authority adopts budgets for all of its funds with budgetary comparisons being presented in this annual report for the General Fund and major special revenue funds. The General Fund budgeted revenues of \$3,549,226 and total expenditures and other financing uses of \$3,684,851. The budget was amended during the year to revenues of \$3,671,398 and expenditures and other financing uses of \$4,546,225. Results for the year were a usage of \$680,415 in fund balance. The Parking Fund budgeted revenues of \$11,421,792 and expenditures and other financing uses of \$12,800,549. The budget was amended during the year to revenues of \$12,928,938 and expenditures and other financing uses of \$13,593,381. Results for the year were a usage of \$459,663 in fund balance.

Financial analysis of the Authority's Major and Nonmajor Funds

As the Authority completed 2005/06 its governmental funds reported combined fund balances of \$17,433,267. The net changes are summarized in the following chart:

	General Fund	Parking Fund	Street Improvements Fund	Deck Improvements Fund	Nonmajor Governmental Funds
Fund Balance 06/30/05	\$ 7,252,859	\$ 7,394,613	\$ 382,000	\$ 2,777,888	\$ 981,713
Fund Balance 06/30/06	\$ 6,572,444	\$ 6,934,950	\$ 537,124	\$ 2,244,736	\$ 1,144,013
Net Change	\$ (680,415)	\$ (459,663)	\$ 155,124	\$ (533,152)	\$ 162,300

Capital Assets and Debt Administration

The Authority holds no capital assets as any capital items that are purchased or constructed become property of the City of Ann Arbor. The Authority issued no new debt during the year. Long-term obligations totaled \$5,313,503 at year end. More detailed information may be found in Note E to the financial statements.

Economic Factors and Next Year's Budget

The fiscal year 2007 budget anticipates the property tax and parking income to be approximately what they were last year, it should be noted that in fiscal year 2006 the Authority received a one-time intergovernmental refund in the amount of \$876,223. The budget anticipates increases in expenditures at an inflationary rate. The Authority's reserves are more than adequate to sustain any operational losses

City of Ann Arbor

Downtown Development Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2006

Contacting the DDA's Management

This financial report is designed to provide the DDA's citizens, taxpayers, customers, and creditors with a general overview of the DDA's finances and to demonstrate their accountability for the money it receives. If you have questions about this report or need additional information, contact the Ann Arbor DDA office at 150 S. Fifth Avenue, Suite 301, Ann Arbor, Michigan 48104.

BASIC FINANCIAL STATEMENTS

City of Ann Arbor

Downtown Development Authority

STATEMENT OF NET ASSETS

June 30, 2006

	Governmental Activities
ASSETS	
Current assets	
Cash and cash equivalents	\$ 225,255
Investments	18,062,405
Accounts receivable	276,043
Taxes receivable	6,707
Due from other governmental units	67,771
Prepays	<u>79,972</u>
TOTAL ASSETS	18,718,153
LIABILITIES	
Current liabilities	
Accounts payable	931,693
Accrued payroll	4,581
Accrued interest payable	71,346
Due to other governmental units	91,327
Current portion of long-term debt	<u>1,120,613</u>
Total current liabilities	2,219,560
Noncurrent liabilities	
Noncurrent portion of long-term debt	<u>4,192,890</u>
TOTAL LIABILITIES	<u>6,412,450</u>
NET ASSETS	
Unrestricted	<u><u>\$ 12,305,703</u></u>

See accompanying notes to financial statements.

City of Ann Arbor
Downtown Development Authority
STATEMENT OF ACTIVITIES
Year Ended June 30, 2006

Functions/Programs	Expenses	Program Revenues Charges for Services	Net (Expense) Revenues and Changes in Net Assets Governmental Activities
Governmental Activities			
Downtown development	\$ 4,285,936	\$ -	\$ (4,285,936)
Parking	12,035,052	11,680,426	(354,626)
Housing	70,405	-	(70,405)
Interest on long-term debt	210,022	-	(210,022)
Total	<u>\$ 16,601,415</u>	<u>\$ 11,680,426</u>	(4,920,989)
General revenues			
Property taxes			3,365,468
Investment earnings			377,608
Intergovernmental - local			876,223
Miscellaneous			<u>36,346</u>
Total general revenues			<u>4,655,645</u>
Change in net assets			(265,344)
Restated net assets, beginning of year			<u>12,571,047</u>
Net assets, end of year			<u>\$ 12,305,703</u>

See accompanying notes to financial statements.

City of Ann Arbor

Downtown Development Authority

GOVERNMENTAL FUNDS BALANCE SHEET

June 30, 2006

	General	Parking	Street Improvements
ASSETS			
Cash and cash equivalents	\$ 15,238	\$ 110,150	\$ -
Investments	6,488,477	7,261,043	814,455
Accounts receivable	257,285	18,758	-
Taxes receivable	6,707	-	-
Due from other governmental units	1,166	66,605	-
Due from other funds	663,087	-	-
Prepays	5,068	74,904	-
TOTAL ASSETS	\$ 7,437,028	\$ 7,531,460	\$ 814,455
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 577,931	\$ 353,762	\$ -
Accrued payroll	2,105	2,476	-
Due to other funds	-	176,208	277,331
Due to other governmental units	27,263	64,064	-
Deferred revenue	257,285	-	-
TOTAL LIABILITIES	864,584	596,510	277,331
FUND BALANCES			
Reserved for			
Prepays	5,068	74,904	-
Capital improvements	-	6,860,046	537,124
Housing	-	-	-
Unreserved			
Undesignated, reported in			
General fund	6,567,376	-	-
Debt service fund	-	-	-
TOTAL FUND BALANCES	6,572,444	6,934,950	537,124
TOTAL LIABILITIES AND FUND BALANCES	\$ 7,437,028	\$ 7,531,460	\$ 814,455

See accompanying notes to financial statements.

Deck Improvements	Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ 99,867	\$ 225,255
2,453,834	1,044,596	18,062,405
-	-	276,043
-	-	6,707
-	-	67,771
-	-	663,087
-	-	79,972
<u>\$ 2,453,834</u>	<u>\$ 1,144,463</u>	<u>\$ 19,381,240</u>
\$ -	\$ -	\$ 931,693
-	-	4,581
209,098	450	663,087
-	-	91,327
-	-	257,285
<u>209,098</u>	<u>450</u>	<u>1,947,973</u>
-	-	79,972
2,244,736	-	9,641,906
-	1,044,146	1,044,146
-	-	6,567,376
-	99,867	99,867
<u>2,244,736</u>	<u>1,144,013</u>	<u>17,433,267</u>
<u>\$ 2,453,834</u>	<u>\$ 1,144,463</u>	<u>\$ 19,381,240</u>

City of Ann Arbor

Downtown Development Authority

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

June 30, 2006

Total fund balance - governmental funds **\$ 17,433,267**

Amounts reported for the governmental activities in the statement of net assets are different because:

Long-term receivables are not available to pay for current period expenditures and are therefore deferred in the funds. These consist of:

Deferred revenue	257,285
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Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:

Bonds payable	(5,313,503)	
Accrued interest payable	<u>(71,346)</u>	
		<u>(5,384,849)</u>

Net assets of governmental activities **\$ 12,305,703**

See accompanying notes to financial statements.

City of Ann Arbor

Downtown Development Authority

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS

Year Ended June 30, 2006

	General	Parking	Street Improvements
REVENUES			
Taxes	\$ 3,365,468	\$ -	\$ -
Intergovernmental	-	876,223	-
Charges for services	-	11,708,342	-
Investment income	122,683	152,959	12,455
Other	36,346	-	-
TOTAL REVENUES	3,524,497	12,737,524	12,455
EXPENDITURES			
Current			
General administrative	1,342,357	862,939	-
Operating	-	7,584,560	10,434
Grants to other organizations	452,397	3,583,310	-
Debt service	1,328,400	-	-
Capital outlay	461,758	4,243	266,897
TOTAL EXPENDITURES	3,584,912	12,035,052	277,331
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(60,415)	702,472	(264,876)
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	420,000
Transfers out	(620,000)	(1,162,135)	-
TOTAL OTHER FINANCING SOURCES (USES)	(620,000)	(1,162,135)	420,000
NET CHANGE IN FUND BALANCES	(680,415)	(459,663)	155,124
Fund balances, beginning of year	7,252,859	7,394,613	382,000
Fund balances, end of year	\$ 6,572,444	\$ 6,934,950	\$ 537,124

See accompanying notes to financial statements.

Deck Improvements	Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 3,365,468
-	-	876,223
-	-	11,708,342
56,806	32,705	377,608
-	-	36,346
56,806	32,705	16,363,987
-	-	2,205,296
606,191	2,330	8,203,515
-	68,075	4,103,782
-	-	1,328,400
1,145,902	-	1,878,800
1,752,093	70,405	17,719,793
(1,695,287)	(37,700)	(1,355,806)
1,162,135	200,000	1,782,135
-	-	(1,782,135)
1,162,135	200,000	-0-
(533,152)	162,300	(1,355,806)
2,777,888	981,713	18,789,073
\$ 2,244,736	\$ 1,144,013	\$ 17,433,267

City of Ann Arbor

Downtown Development Authority

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2006

Net change in fund balances - total governmental funds	\$ (1,355,806)
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Amounts reported for governmental activities in the statement of activities are different because:

Revenues earned but not available for current expenditures are not reported as revenues in the funds. In the current period these amounts are:	(27,916)
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Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets. In the current year, these amounts consist of:

Bond principal retirement	1,085,947
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Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Decrease in accrued interest payable	<u>32,431</u>
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Change in net assets of governmental activities	<u><u>\$ (265,344)</u></u>
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See accompanying notes to financial statements.

City of Ann Arbor

Downtown Development Authority

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Ann Arbor Downtown Development Authority was created on May 10, 1982, pursuant to Act 197 of the Public Acts of Michigan, 1975 as amended. The Authority has no stockholders, and all monies received are to be used for certain specified purposes in accordance with the City of Ann Arbor ordinance establishing the Authority.

The primary revenue sources of the City of Ann Arbor Downtown Development Authority are "tax increment revenue" and "parking structure revenue". The taxing units are required by law to transmit to the Authority that portion of the tax levy of all taxing bodies paid each year on the captured assessed value of all real and personal property located in the development area. The "captured assessed value" is basically defined as the amount in any one year by which the current assessed value of the project area exceeds the initial assessed value.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity* (as amended by GASB Statement No. 39); and Statement on Michigan Governmental Accounting and Auditing No. 5, these financial statements are exclusive presentations of the financial condition and results of operations of the City of Ann Arbor Downtown Development Authority. The Authority is considered a component unit of the City of Ann Arbor, Michigan and is discretely presented in the City of Ann Arbor's (the Primary Government) financial statements. A copy of the City's audited financial statements may be obtained at the Ann Arbor City Hall.

2. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the government-wide statements) present information for the Authority as a whole.

The government-wide financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, adjustments are reflected on the face of the financial statements.

The statement of activities presents the direct functional expenses of the Authority and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients for goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes investment earnings and property taxes and shows how governmental functions are either self-financing or supported by the general revenues of the Authority.

FUND FINANCIAL STATEMENTS

The fund financial statements present the Authority's individual major funds and aggregated nonmajor funds. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The governmental funds financial statements present the Authority's major funds.

The major funds of the Authority are:

- a. General Fund - The general operating fund is used to account for all financial resources of the Authority which are restricted to expenditures for downtown development purposes.

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

2. Basis of Presentation - continued

FUND FINANCIAL STATEMENTS - CONTINUED

- b. Parking Fund - The Parking fund is used to account for all financial resources of the Authority relating to the parking structures.
- c. Deck Improvements Fund - The Deck Improvements fund is used to account for all financial resources relating to improvements to the parking deck.
- d. Street Improvements Fund - The Street Improvements fund is used to account for all financial resources relating to maintaining the streets.

3. Measurement Focus

The government-wide financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

4. Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). The length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements is 60 days. Revenues which are considered measurable, but not available, are recorded as a receivable and deferred revenue. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

Private-sector standards of accounting and financial reporting issued to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The Authority has elected not to follow subsequent private-sector guidance.

5. Budgets and Budgetary Accounting

The annual budget of the Authority is prepared by Authority management and approved by the Board. Any revisions to the original budget are approved by the Board before the end of the fiscal year.

City of Ann Arbor
Downtown Development Authority
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

6. Cash, Cash Equivalents, and Investments

Cash and cash equivalents consist of the Authority's checking and savings accounts and equity in the pooled accounts of the City of Ann Arbor.

Investments consist of U.S. Government Securities with original maturities of greater than 90 days and pooled investments held by the same agent in the Authority's name. Investments are recorded at market value in accordance with GASB 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

7. Receivables

Receivables consist of amounts due from local governmental units related to charges for services and property taxes.

8. Long-Term Obligations

Long-term debt and other long-term obligations are recognized as a liability in the government-wide financial statements and proprietary fund types when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

Long-term debt is recognized as a liability of a governmental fund when due or when resources have been accumulated in a fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

9. Deferred Revenue

Deferred revenue consists of amounts related to long-term receivables recorded at the fund level that are not available to finance current period expenditures and are therefore deferred.

10. Interfund Transactions

During the course of normal operations, the Authority has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as transfers. Transfers between governmental funds are netted as part of the reconciliation to the government-wide financial statements.

11. Comparative Data

Comparative data for the prior year has not been presented in the accompanying financial statements since their inclusion would make the statements unduly complex and difficult to read.

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS

In accordance with Michigan Compiled Laws, the Authority is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.

City of Ann Arbor

Downtown Development Authority

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of this State or the United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belonging to the State under Section 6 of 1855 PA 105, MCL 21.146.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or Federal agency obligations repurchase agreements.
5. Bankers acceptances of United States Banks.
6. Mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State funds, securities issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Corporation or Government National Mortgage Association.

Deposits

There is a custodial credit risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. As of June 30, 2006, the carrying amounts of the Authority's deposits were \$225,055 and the bank balance was \$353,289, of which \$153,433 was covered by federal depository insurance. The balance of \$199,856 was uninsured and uncollateralized. The Authority had \$200 of imprest cash on hand.

Credit risk

State law limits investments to specific government securities, certificates of deposit, and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. The Authority's investment policy does not have specific limits in excess of state law on investment credit risk. The ratings for each investment are identified below for investments held at year-end.

Interest rate risk

State law limits the allowable investments and the maturities of some of the allowable investments as identified in the list of investments above. The Authority's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

City of Ann Arbor
Downtown Development Authority
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

Concentration of credit risk

State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The Authority's investment policy does not limit concentration of credit risk. All investments held at year-end are reported below.

Custodial credit risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the Authority does not have a policy for investment custodial credit risk. On the investments listed below, the custodial credit risk is indicated for those investments which are rated. \$2,375,754 of the investments listed below are unclassified as to custodial credit risk as the invested amount is part of an investment pool. \$15,686,651 of the investments below is uninsured and unregistered, with securities held by the agent in the Authority's name.

Investments

As of June 30, 2006, the Authority had the following investments:

<u>INVESTMENT TYPE</u>	<u>Carrying Amount</u>	<u>Market Value</u>	<u>Moody's Rating</u>	<u>Weighted Average Maturity</u>
Federal Home Loan Bank	\$12,143,057	\$12,143,057	Aaa	2.47 years
Federal Home Loan Mtg Corp	2,082,879	2,082,879	Aaa	2.47 years
Federal National Mtg Association	1,172,794	1,172,794	Aaa	2.47 years
Federal Farm Credit Bank	100,785	100,785	Aaa	2.47 years
Freddie Mac	187,136	187,136	Aaa	2.47 years
Uncategorized pooled investment	<u>2,375,754</u>	<u>2,375,754</u>	Not rated	N/A
	<u>\$18,062,405</u>	<u>\$18,062,405</u>		

NOTE C: INTERFUND RECEIVABLES AND PAYABLES

The following schedule details interfund receivables and payables at June 30, 2006:

Due to General Fund from:	
Parking Fund	\$ 176,208
Deck Improvements Fund	209,098
Street Improvements Fund	277,331
Nonmajor governmental funds	<u>450</u>
	<u>\$ 663,087</u>

Amounts appearing as interfund payables and receivables arise from two types of transactions. One type of transaction is where a fund will pay for a good or service that at least a portion of the benefit belongs to another fund. The second type of transaction is where one fund provides a good or service to another fund. Balances at the end of the year are for transfers that have not cleared as of the balance sheet date.

City of Ann Arbor
Downtown Development Authority
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE D: INTERFUND TRANSFERS

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds have been eliminated.

Transfer to Street Improvement Fund from:	
General Fund	<u>\$ 420,000</u>
Transfer to Deck Improvement Fund from:	
Parking Fund	<u>\$ 1,162,135</u>
Transfer to nonmajor governmental funds from:	
General Fund	<u>\$ 200,000</u>

NOTE E: LONG-TERM DEBT

The following is a summary of changes in long-term debt (including current portion) of the Authority for the year ended June 30, 2006:

	Restated Balance <u>July 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2006</u>	Amounts Due Within <u>One Year</u>
Governmental activities					
1992 Limited Tax Bonds	\$ 1,400,000	\$ -	\$ 350,000	\$ 1,050,000	\$ 350,000
1998 Refunding Bonds	1,229,450	-	300,947	928,503	305,613
2002 Limited Tax Bonds	<u>3,770,000</u>	<u>-</u>	<u>435,000</u>	<u>3,335,000</u>	<u>465,000</u>
	<u>\$ 6,399,450</u>	<u>\$ -0-</u>	<u>\$ 1,085,947</u>	<u>\$ 5,313,503</u>	<u>\$ 1,120,613</u>

Significant details regarding outstanding long-term debt (including current portions) are presented below:

General Obligation Bonds

\$3,750,000 1992 General Obligation Limited Tax Development Bonds dated July 1, 1992, due in annual installments of \$350,000 through September 1, 2008, with interest of 5.00 percent, payable semi-annually	<u>\$ 1,050,000</u>
\$1,885,000 1998 Refunding Bonds, dated December 1, 1998, due in annual installments ranging from \$305,613 to \$314,944 through March 1, 2009, with interest ranging from 3.80 to 4.05 percent, payable semi-annually	928,503
\$4,925,000 2002 General Obligation Limited Tax Development Bonds dated May 1, 2002, due in annual installments ranging from \$465,000 to \$650,000 through March 1, 2012 with interest ranging from 3.25 to 4.00 percent, payable semi-annually	<u>3,335,000</u>
	<u>\$ 5,313,503</u>

City of Ann Arbor

Downtown Development Authority

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE E: LONG-TERM DEBT - CONTINUED

The annual requirements to pay the debt principal and interest outstanding for the long-term debt are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 1,120,613	\$ 199,327
2008	1,157,946	154,673
2009	1,199,944	107,213
2010	575,000	72,825
2011	610,000	50,400
2012	<u>650,000</u>	<u>26,000</u>
	<u>\$ 5,313,503</u>	<u>\$ 610,438</u>

NOTE F: RISK MANGEMENT

The Authority participates in a State pool through the Michigan Municipal Risk Management Authority, with other municipalities for liability, property, and crime losses. The pool is organized under Public Act 138 of 1982, as amended. The Authority has no liability for additional assessments based on the claims filed against the pool nor do they have any right to dividends.

The Authority, as a component unit of the City of Ann Arbor, is protected from other losses as described in the note captioned "Risk Management" within the City's Comprehensive Annual Financial Report.

NOTE G: DEVELOPMENT AGREEMENTS PAYABLE

The Authority has entered into two (2) agreements with developers that call for sharing of incremental tax revenues generated from the development of certain properties within the Downtown area. Both agreements were entered into during the 2005/06 fiscal year and no payments have been made to date, nor have definite payment schedules been established.

One of the agreements calls for the Authority to pay all incremental tax revenue received to the developer in one payment each year until a total of \$600,000 has been paid. The other agreement calls for the Authority to pay 20% of the incremental tax revenue received to the developer in one payment each year until a total has been paid equal to the amount of incremental tax revenue expected to be received over the first ten (10) years which the completed project will reasonably produce, determined by the City Assessor.

City of Ann Arbor
Downtown Development Authority
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE H: NON-CANCELABLE OPERATING LEASE OBLIGATIONS

The Authority has entered into two (2) non-cancelable long-term operating leases.

The first is for rental of office space that requires monthly payments ranging from \$5,068 to \$5,894 through June 30, 2011. The following is a schedule of future minimum lease payments required under this operating lease as of June 30, 2006.

<u>Year Ending June 30,</u>	<u>Amount</u>
2007	\$ 60,818
2008	60,818
2009	63,721
2010	66,994
2011	<u>70,722</u>
TOTAL PAYMENTS	<u>\$ 323,073</u>

The second is for property used for parking that requires quarterly payments of \$73,047 for calendar year 2006. The quarterly payments for each year are adjusted based on the change in the Consumer Price Index, as established by the U.S. Department of Labor, each October in relation to the previous October. The current agreement is set to expire December 31, 2011 but has been extended in five-year increments since 1982 and is expected to continue beyond that date. Annual payment information is not presented on this obligation because they are not determinable at this time.

NOTE I: MASTER PARKING AGREEMENT WITH THE CITY OF ANN ARBOR

The Downtown Development Authority, pursuant to various lease agreements, is responsible for management of the entire public parking system for the City of Ann Arbor, with the exception of parking enforcement and the residential permit program. The current agreement is for the period of July 1, 2005 through June 30, 2015 and provides for the Authority to pay the following amounts to the City of Ann Arbor:

- Payment of annual debt service requirements on the outstanding parking structure bonds and payment of all facility maintenance and utility costs. The maturity schedule for those bonds is as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 349,387	\$ 30,759
2008	352,054	31,683
2009	<u>360,056</u>	<u>4,556</u>
	<u>\$ 1,061,497</u>	<u>\$ 66,998</u>

- Payment of an annual fund transfer of \$730,000 to the City's Major and Local Street Funds
- Payment of annual rent of \$1,000,000

All of these amounts are paid from the Authority's Parking Fund with revenues derived from charges for services at the various City parking facilities.

City of Ann Arbor

Downtown Development Authority

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE J: COST SHARING AGREEMENT

The Authority has entered into a cost sharing agreement with Detroit Edison under which Edison pays 14.3% of operations and maintenance costs related to the parking structure located at the intersection of Fourth and William Streets in Ann Arbor. This agreement entitles Edison to 125 parking spaces in the structure for its exclusive use, for a period of twenty-five years from the initial agreement date of January 11, 1982.

NOTE K: PARKING MANAGEMENT AGREEMENT

The Authority has entered into an agreement with Republic Parking, Inc., under which Republic operates various parking facilities in the City. Parking revenues collected are deposited directly in the Authority's bank account and the Authority is billed monthly for operating expenses incurred by Republic. Additionally, Republic is paid a management fee of \$5,000 per month as well as an annual incentive payment that is determined based on certain agreed-upon measures of performance. The contract was effective as of February 1, 2001 for thirty-six (36) months with up to three (3) additional one (1) year automatic renewals unless either party gives written notice. This agreement expires January 31, 2007.

NOTE L: RESTATEMENT OF NET ASSETS

The Authority's previous year's financial statements included debt that is properly a liability of the City of Ann Arbor and is recorded in the City's financial statements accordingly. While the Authority is contractually obligated to pay these bonds under the Master Parking Agreement with the City, the bonds would be the responsibility of the City in the event that the contract was terminated. Net assets have been restated to remove this debt from the Authority's governmental activities.

Governmental activities net assets as of June 30, 2005	\$11,165,497
Overstated long-term debt	<u>1,405,550</u>
Restated governmental activities net assets as of June 30, 2005	<u>\$12,571,047</u>

REQUIRED SUPPLEMENTARY INFORMATION

City of Ann Arbor
Downtown Development Authority
General Fund
BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2006

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Taxes	\$ 3,280,637	\$ 3,353,650	\$ 3,365,468	\$ 11,818
Investment income	268,589	280,000	122,683	(157,317)
Other	-	37,748	36,346	(1,402)
TOTAL REVENUES	3,549,226	3,671,398	3,524,497	(146,901)
EXPENDITURES				
Current				
General administrative	718,645	1,595,186	1,342,357	252,829
Grants to other organizations	380,000	705,000	452,397	252,603
Debt service	1,720,206	1,331,039	1,328,400	2,639
Capital outlay	666,000	295,000	461,758	(166,758)
TOTAL EXPENDITURES	3,484,851	3,926,225	3,584,912	341,313
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	64,375	(254,827)	(60,415)	194,412
OTHER FINANCING USES				
Transfers out	(200,000)	(620,000)	(620,000)	-0-
NET CHANGE IN FUND BALANCE	(135,625)	(874,827)	(680,415)	194,412
Fund balance, beginning of year	7,252,859	7,252,859	7,252,859	-0-
Fund balance, end of year	<u>\$ 7,117,234</u>	<u>\$ 6,378,032</u>	<u>\$ 6,572,444</u>	<u>\$ 194,412</u>

City of Ann Arbor
Downtown Development Authority
Parking Fund
BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2006

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Intergovernmental - local	\$ -	\$ 876,217	\$ 876,223	\$ 6
Charges for services	11,157,031	11,787,960	11,708,342	(79,618)
Investment income	264,261	264,261	152,959	(111,302)
Miscellaneous	500	500	-	(500)
TOTAL REVENUES	11,421,792	12,928,938	12,737,524	(191,414)
EXPENDITURES				
Current				
General administrative	1,181,387	985,211	862,939	122,272
Operating	7,125,764	7,742,191	7,584,560	157,631
Grants to other organizations	3,331,263	3,703,844	3,583,310	120,534
Capital outlay	-	-	4,243	(4,243)
TOTAL EXPENDITURES	11,638,414	12,431,246	12,035,052	396,194
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(216,622)	497,692	702,472	204,780
OTHER FINANCING USES				
Transfers out	(1,162,135)	(1,162,135)	(1,162,135)	-0-
NET CHANGE IN FUND BALANCE	(1,378,757)	(664,443)	(459,663)	204,780
Fund balance, beginning of year	7,394,613	7,394,613	7,394,613	-0-
Fund balance, end of year	<u>\$ 6,015,856</u>	<u>\$ 6,730,170</u>	<u>\$ 6,934,950</u>	<u>\$ 204,780</u>

OTHER SUPPLEMENTARY INFORMATION

City of Ann Arbor
Downtown Development Authority
Nonmajor Governmental Funds
COMBINING BALANCE SHEET

June 30, 2006

	Special Revenue	Capital Projects	Total Nonmajor Governmental Funds
	Housing	2002 Pedestrian Improvements	
ASSETS			
Cash and cash equivalents	\$ -	\$ 99,867	\$ 99,867
Investments	1,044,596	-	1,044,596
TOTAL ASSETS	\$ 1,044,596	\$ 99,867	\$ 1,144,463
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Due to other funds	\$ 450	\$ -	\$ 450
FUND BALANCES			
Reserved for			
Housing	1,044,146	-	1,044,146
Unreserved			
Undesignated, reported in			
Debt service fund	-	99,867	99,867
TOTAL FUND BALANCES	1,044,146	99,867	1,144,013
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,044,596	\$ 99,867	\$ 1,144,463

City of Ann Arbor

Downtown Development Authority

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS

Year Ended June 30, 2006

	Special Revenue	Capital Projects	Total Nonmajor Governmental Funds
	Housing	2002 Pedestrian Improvements	
REVENUES			
Interest	\$ 25,131	\$ 7,574	\$ 32,705
EXPENDITURES			
Current			
Operating	2,330	-	2,330
Grants to other organizations	68,075	-	68,075
TOTAL EXPENDITURES	70,405	-0-	70,405
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(45,274)	7,574	(37,700)
OTHER FINANCING SOURCES			
Transfers in	200,000	-	200,000
NET CHANGE IN FUND BALANCES	154,726	7,574	162,300
Fund balances, beginning of year	889,420	92,293	981,713
Fund balances, end of year	\$ 1,044,146	\$ 99,867	\$ 1,144,013

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA



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MANAGEMENT LETTER

To the members of the City of Ann Arbor
Downtown Development Authority
Ann Arbor, Michigan

Dear Ladies/Gentlemen:

As you know, we have recently completed our audit of the records of the City of Ann Arbor Downtown Development Authority for the year ended June 30, 2006. In connection with the audit, we feel that certain changes in your accounting procedures would be helpful in improving management's control and the operational efficiency of the accounting functions. These suggestions are a result of our evaluation of the Authority's internal controls and our discussions with management.

1. The Authority should consider adopting additional administrative policies and procedures.

Based on our discussions with management, we noted that the Authority has not formally adopted written procedures and policies for several areas of operation. In many areas, the DDA has no policies of its own and follows those of the City. Documenting specific policies and procedures allows employees to have a clearer understanding of management's expectations. It also allows management to have greater visibility over those areas for which they are responsible. Specifically, we suggest that the Authority develop, formally adopt, and implement written procedures and policies in the following areas:

- a. Disaster recovery plan - We suggest the Authority adopt a disaster recovery plan. The plan should identify areas of operation that are critical to the Authority and detail how the Authority would continue to operate in the absence of those critical areas of operation.
- b. Code of conduct - We suggest the Authority adopt a code of conduct. The code should include a policy on conflicts of interest and the Authority should require employees and Board members to periodically make a declaration of compliance.
- c. Personnel policies - We suggest the Authority review their personnel policies. The policies should address the issue of background checks on all potential employees, formal job descriptions for key employees, and a requirement of mandatory vacations for employees in positions of financial trust, with those duties performed by another employee during that absence.
- d. Accounting policies and procedures manual - We suggest the Authority formally document any accounting procedures that are currently in place and supplement this with any policies that may be required to support those procedures. These policies and procedures should include cash receipt and disbursement procedures, payroll procedures, criteria for establishing a fund, specific activities to be accounted for in each fund, any closing procedures necessary for the preparation of monthly/annual financial statements, purchasing, and obtaining competitive bids.

2. The Authority should review various areas of operation and consider additional segregation of duties.

During our consideration and assessment of fraud risk, we noted that the Authority may not have sufficient segregation of duties in its accounting structure. Specifically, we noted that one employee has administrative access to all financial applications in the computer, including cash receipting, processing journal entries, bank reconciliations, and accounts payable. Also, we noted that the completed bank reconciliation is not reviewed or approved at a supervisory level. The intent of internal control is to assure that no one individual is able to control all aspects of a transaction cycle (i.e., receipts, disbursements, etc.).

While this is a common occurrence in small organizations due to the limited number of employees, the Authority should realize that a greater risk in safeguarding assets exists if duties and responsibilities are not appropriately arranged and separated.

We suggest that the Authority review various areas of operation and consider additional segregation of duties. If duties cannot be adequately segregated due to the limited number of employees, we suggest the Authority provide a greater review and supervision of employee functions and procedures. We also suggest that in the future when the Authority is adopting new or modifying existing financial policies they consider the issue of fraud, and assure that the policy discusses ways that will prevent, deter, and detect fraud within the area the policy is addressing.

3. The Authority should reconcile the manual receipt log to the bank deposits.

During our testing of the receipts process, we noted that the Authority did maintain a log of all receipts. However, this log is not reconciled to the bank deposits to ensure that all monies collected were subsequently deposited to the bank. Maintaining appropriate documentation of cash receipts is a key internal control activity. A clear trail should exist from the point of collection through to the deposit.

We suggest the Authority appoint an individual independent of the receipting and depositing functions to reconcile the receipt log to the bank deposits.

These conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in our audit of the financial statements and this report does not affect our report on the financial statements dated September 19, 2006.

This report is intended solely for the use of management and the Board of Directors of the City of Ann Arbor Downtown Development Authority and is not intended to be and should not be used by anyone other than these specified parties.

We wish to express our appreciation for the courtesy and cooperation extended to us during our audit. We are available to discuss any or all of these suggestions with you and to provide assistance in the implementation of improvements.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

September 19, 2006